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EXPLORATION AND DEVELOPMENT CO., LIMITED



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SILVER GOLD SILVER GOLD

1977

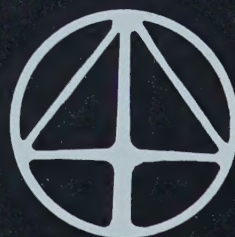
ANNUAL REPORT



*Underground drilling at Silver
Mining Division, Agnico-Eagle
Mines Limited.*

mentor

EXPLORATION AND
DEVELOPMENT CO. LIMITED



MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

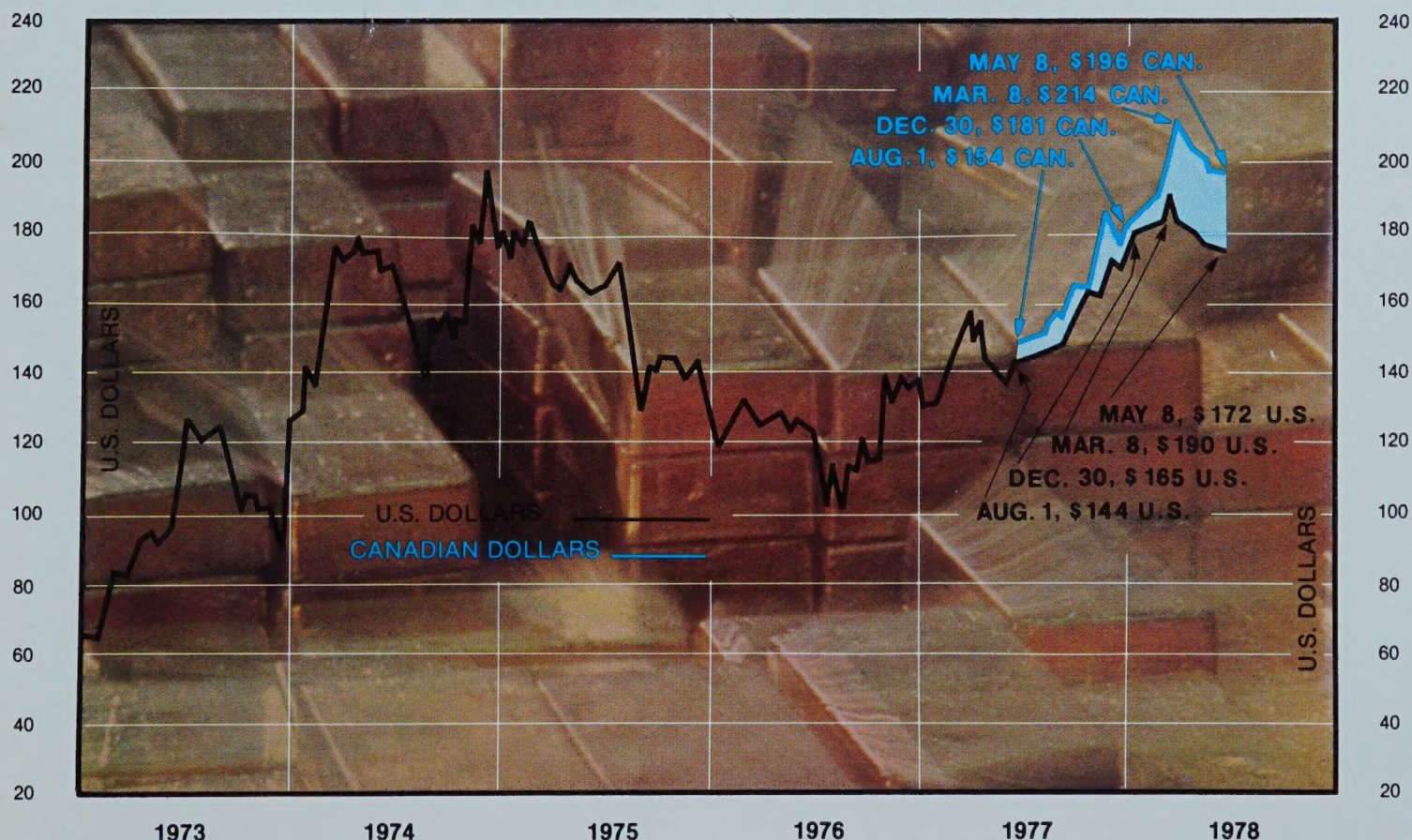
Executive and Head Office	Suite 300, 365 Bay Street, Toronto, Ontario M5H 2V1
Directors	IRVING DOBBS PHILIP DRUTZ GORDON W. KIRK, P.Eng. JOHN R. MURRAY PAUL PENNA ALBERT WASSERMAN
Officers	PAUL PENNA, <i>President</i> MIKEY DRUTZ, <i>Secretary-Treasurer</i>
Consulting Geologist	W. A. HUBACHECK, B.Sc., P.Eng.
Transfer Agent and Registrar	GUARANTY TRUST COMPANY OF CANADA Toronto, Ontario
Auditors	STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL Chartered Accountants Toronto, Ontario
Solicitors	SHIBLEY, RIGHTON & MCCUTCHEON Toronto, Ontario
Shares Listed	TORONTO STOCK EXCHANGE Toronto, Canada
Annual Meeting	June 23, 1978, 11:30 a.m. (Toronto Time), Alberta Room, Royal York Hotel, 100 Front Street West, Toronto, Ontario

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The composite chart of gold prices, upper line (blue) showing Canadian equivalent prices reflecting the discount of the Canadian dollar compared to the U.S. dollar. In 1977 the Canadian dollar dropped to an average discount of 6% and up to 12% during the first quarter of 1978. During 1976 the Canadian dollar had been at an average 2% premium. The peak of \$214 per ounce reached on March 8, 1978, was well above the 1974 high of \$197 per ounce.

Weekly Average Gold Price, Second Fixing — London Gold Market



DIRECTORS' REPORT TO THE SHAREHOLDERS

The Directors are pleased to present the Annual Report of the Company which includes the audited financial statements for the year ended December 31, 1977 together with the following review of its activities, mineral properties and principal investments.

Although your Company's exploration efforts and investments continue to be substantially gold oriented, during the past year the spectrum of mineral interest has been broadened to include such specialty and strategic metals as tungsten and molybdenum.

The gold theme derives from your Company's substantial minority shareholdings in **Agnico-Eagle Mines Limited** with its separate gold and silver mining divisions which in 1977 recorded bullion production with a gross value of \$11 million; and in **Dumagami Mines Limited** which owns a partially developed gold-silver-copper deposit, currently on a standby basis, but now emerging in economic significance due to the sharp uptrend in gold prices.

An important added economic factor for **Dumagami Mines Limited** is this company's recent acquisition of a former producing molybdenum mine with existing remaining reserves totalling about 1.5 million tons grading between 0.31% and 0.40% MoS₂ plus associated bismuth content.

As previously reported, your Company finalized negotiations in July, 1977 for the acquisition of a working option to explore and develop a tungsten-molybdenum property in the Salmo mining area, British Columbia. The property, as originally constituted, covered an area of approximately 2,400 acres on which there were three separate known mineral occurrences, tungsten, molybdenum and lead-zinc. This property has subsequently been enlarged to a total of some 3,000 acres and a new tungsten discovery has been made about 7,000 feet south of the previously known main showing.

Prices for both tungsten and molybdenum have advanced substantially in recent years and each exhibit market characteristics that provide an excellent outlook for the long term. The current free market price for tungsten around US\$130 per short ton unit compares with a 1976 average price of US\$104 and the 1975 average of US\$80 per short ton unit. (A short ton unit equates to 20 lbs. of contained tungsten.)

The increase in molybdenum prices has been even more impressive, currently quoted at US\$5.38 per lb. of molybdenum oxide, more than double the 1975 price of approximately US\$2.40 per lb., and more than triple the prices prevailing prior to 1972 when operations at the molybdenum mine recently acquired by Dumagami were suspended.

The emerging pattern of gold prices during the past 12 months has been most impressive in terms of both stability and advance. From a mid-1977 range around US\$140 per ounce, gold prices climbed steadily to a high of US\$190 early in March, 1978 and currently close to US\$180 per ounce. From the standpoint of Canadian gold producers such as Agnico-Eagle, the discount of the Canadian dollar compared to the U.S. dollar of approximately 11% to 12%, the current gold price equates to over \$190 per ounce. In fact, during the first quarter of 1978, Agnico-Eagle Mines Limited received an average of \$197.12 per ounce of gold produced.

The current strength and positive outlook for gold prices obviously provides very favourable expectations for the 1978 financial results of Agnico-Eagle Mines Limited and great incentives for the forward planning of the respective exploration and development programs for **Sudbury Contact Mines, Limited** and **Dumagami Mines Limited's** gold division.

The following is a tabulation of your Company's principal investment holdings at May 26, 1978:

Agnico-Eagle Mines Limited — 972,720 shares equal to an approximate 7% interest.

Dumagami Mines Limited — 637,500 shares equal to an approximate 16.8% interest (see note).

Goldex Mines Limited — 125,200 shares equal to an approximate 5% interest.

Sudbury Contact Mines, Limited — 1,385,582 shares equal to an approximate 21% interest.

Note: Subsequent to the above date, Mentor and Agnico-Eagle Mines Limited were among others of a group which agreed to purchase by private placement a total of 775,000 shares of Dumagami Mines Limited at \$1.00 per share for a total consideration of \$775,000. Mentor and Agnico-Eagle will participate to the extent of 100,000 and 150,000 shares, respectively, in this funding of Dumagami. As a result, Mentor's shareholding in Dumagami will increase to a total of 737,500 shares equal to an approximate 16.2% interest.

The foregoing private placement transaction is subject to acceptance by the various regulatory authorities having jurisdiction.

The following separate summaries of the activities and future plans of the companies in which Mentor has significant investment interests are presented for the information of shareholders.

AGNICO-EAGLE MINES LIMITED

The company operates separate gold and silver mining divisions, respectively located in Joutel Township, Quebec, and in the Cobalt area of Ontario.

Principal developments during 1977 include the completion of the deepening of the shaft at Agnico-Eagle's gold mine to its objective depth at 2,965 feet. A major program of underground development and exploration will now proceed in the new deeper levels of the mine and adjacent areas below the current bottom production level at 1,500 feet.

The 1978 underground program features the long exploration drive on the 2550 level which will be extended into the adjacent company-owned Tel-bel property for a total projected distance of up to 2,000 feet.

Financial Results

Gross revenue from the production of gold and silver bullion during 1977 totalled \$11,069,222 of which \$958,354 was derived from the Silver Mining Division and \$10,110,868 from the Gold Mining Division. This represents an approximate increase of 27% over the gross revenue for the previous year.

Consolidated cash flow from operations of \$2,585,516 or more than double the 1976 figure of \$1,133,732, principally reflects the significantly higher prices received for gold during the year. The major impact of the higher gold prices received during 1977 was evident in the fourth quarter with consolidated cash flow for this period amounting to \$1,032,355.

Against an average gold price received for all of 1977 of \$158.14 per ounce (\$123.55 in 1976), the average for the 1977 fourth quarter was \$177.60 per ounce and for the 1978 first quarter, a record high to date of \$197.12 per ounce.

Cash flow represents monies generated from operations before deductions for depreciation and amortization which do not require a current outlay of cash.

After deduction of non-cash items including amortization and depreciation totalling \$2,946,877, there was a consolidated net loss for the year of \$361,361. While this was short of expectations, it is a considerable improvement over the 1976 net loss of \$1,362,238.

1978 First Quarter Results

Gross revenue for the Gold Mining Division in the first quarter of 1978 amounted to \$3,046,556 and a mine operating profit, or division cash flow, of \$1,253,029. Gross revenue from the Silver Mining Division for this period was \$38,781, while total operating costs were \$156,056 resulting in a mine operating loss of \$117,275. Silver production for the period was limited due to the shut down of the Penn Mill on January 11th, 1978, due to adverse weather conditions. The Penn Mill resumed operations during May.

Consolidated cash flow for the 1978 first quarter amounted to \$1,019,391. Deduction of non-cash items including amortization and depreciation totalling \$572,987 together with head office,

administrative and other expenses, resulted in a consolidated net profit for the period of \$446,404.

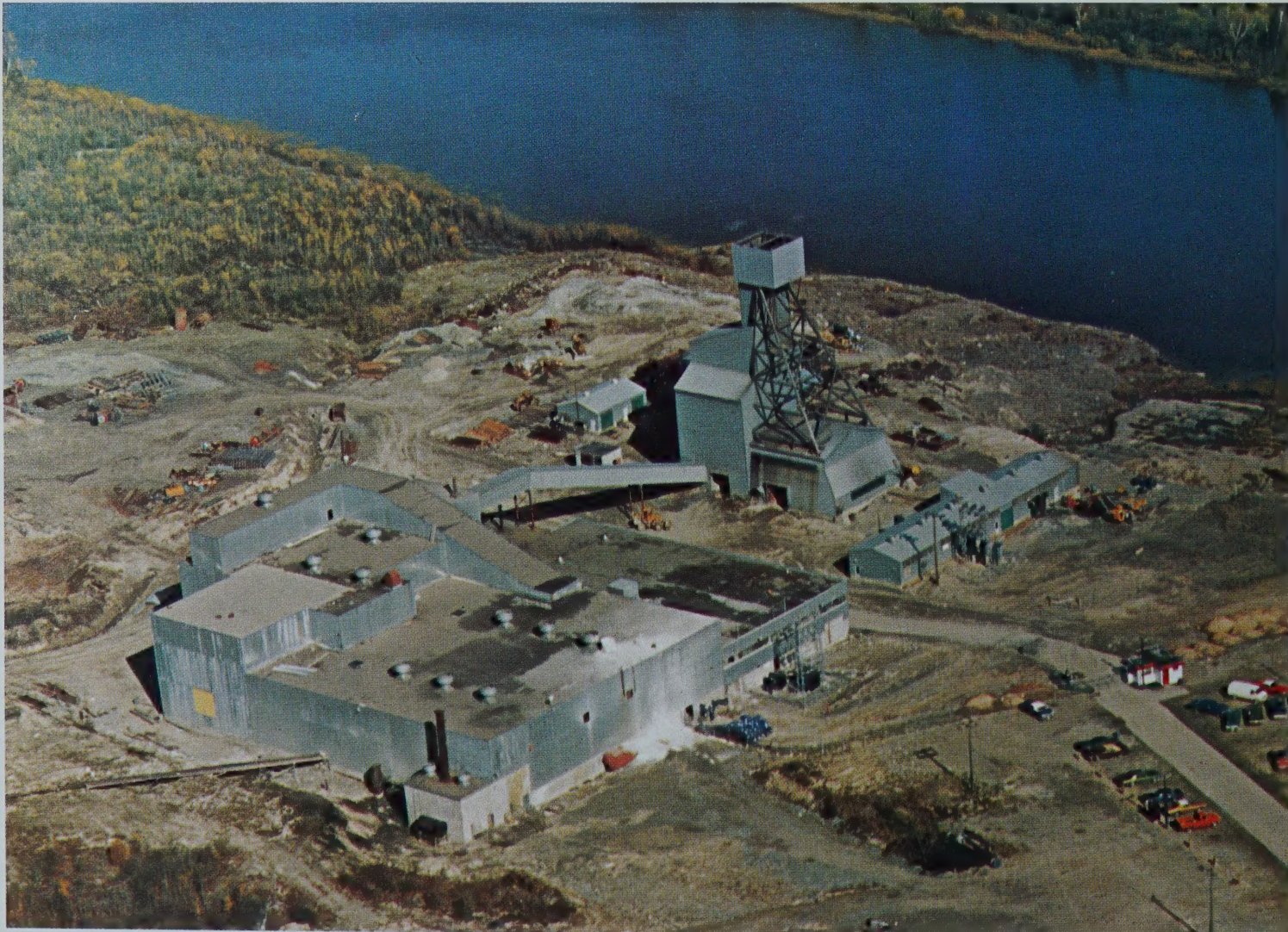
Mine Operations — Gold Division

During the year a total of 363,526 tons of ore with a calculated average grade of 0.197 ounce of gold per ton was treated producing 63,480 ounces of gold and 14,949 ounces of silver. The comparative figures for 1976 were 345,538 tons of ore grading 0.206 ounce per ton producing 64,343 ounces of gold and 17,923 ounces of silver.

The grade of ore treated during 1977 continued to be below the reserve average of 0.25 ounce per ton for the mine area above the 1500 level due to involuntary dilution. Grade of ore treated is expected to improve during the remainder of 1978 when new stopes are brought into production below the 1500 level and modifications of present mining methods are incorporated to achieve a closer relationship between mill feed and reserve grade.

Total proven, probable and indicated ore reserves at December 31, 1977 were 1,597,030 tons

Looking northeast across the mining and milling facilities at the Joutel Township gold mine of Agnico-Eagle Mines Limited. The mill has demonstrated its ability to treat in excess of 1,000 tons daily and during the first quarter overall gold recovery reached a record 91.69%.



of 0.25 ounce gold per ton. This is a decrease of 262,099 tons after the milling of 363,526 tons in 1977. In excess of 1.1 million tons of ore reserves occur below the 1500 level to the approximate area of the 2250 level. The grade of this ore, at 0.26 ounce per ton, is approximately 30% above the average treated during 1977.

Operating costs at \$18.45 per ton of ore milled increased a modest 7.4% over the 1976 rate. Costs per ounce of gold recovered averaged \$105.64 in 1977 compared with \$92.27 per ounce in the previous year, however this is largely a factor of the lower grade of ore treated and significant reductions can be expected latterly in 1978 with the opening up of the new stopes below the 1500 level.

Operating profit for the gold division amounted to \$3,330,854 against \$2,003,935 for 1976.

Mine Operations — Silver Division

Principal source of mill feed during the year came from the Coniagas Mine. During the eight month period of operation of the Penn Mill, a total of 198,811 ounces of silver was produced from

44,362 tons of ore milled. The value of this production was \$958,354. The comparative production figures for 1976 were 192,884 ounces of silver from 41,455 tons of ore milled. Value of 1976 production was \$761,586. The increase in value of production was mainly due to the higher silver prices received, averaging \$4.82 per ounce in 1977 as compared with \$3.95 per ounce in the previous year.

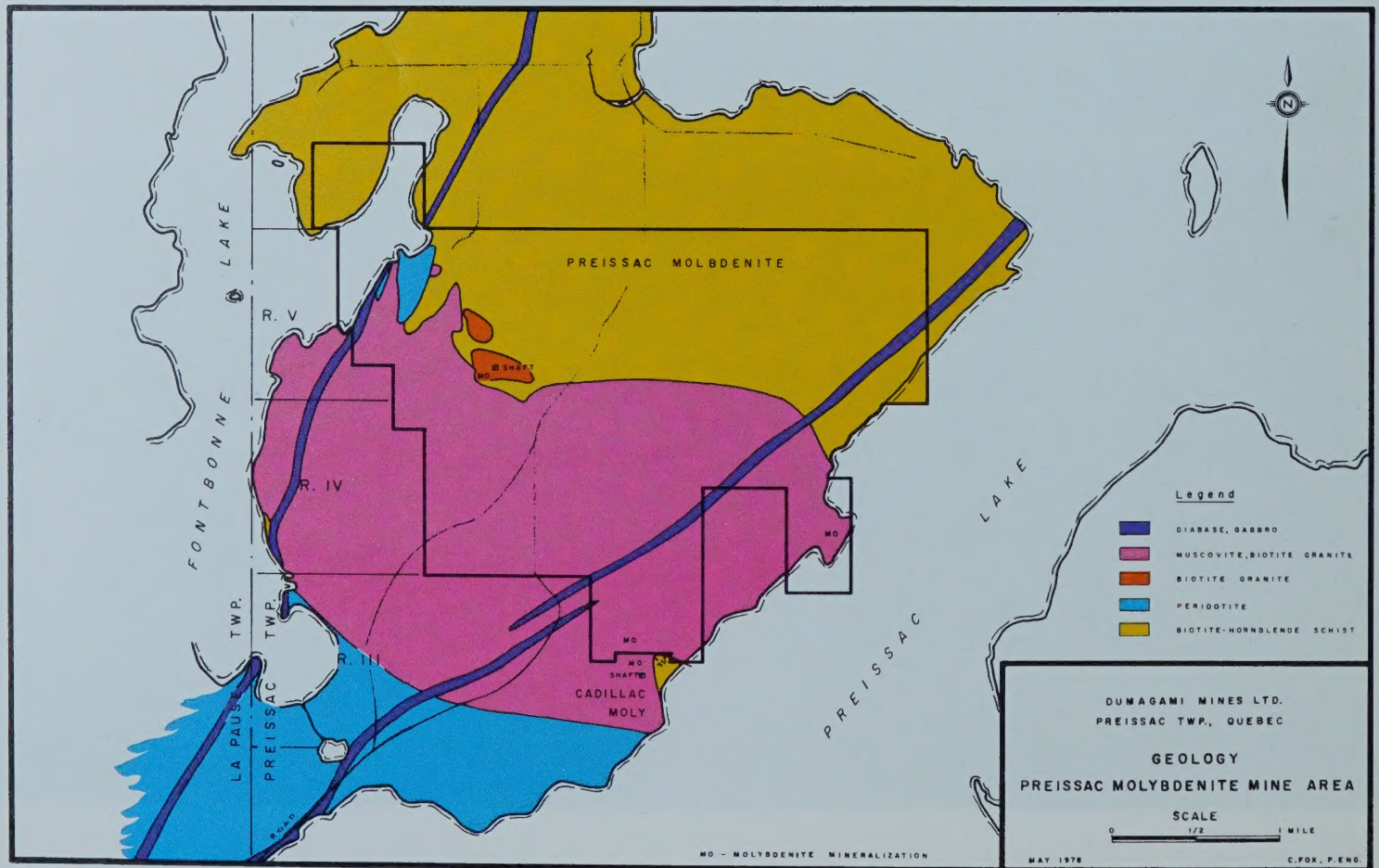
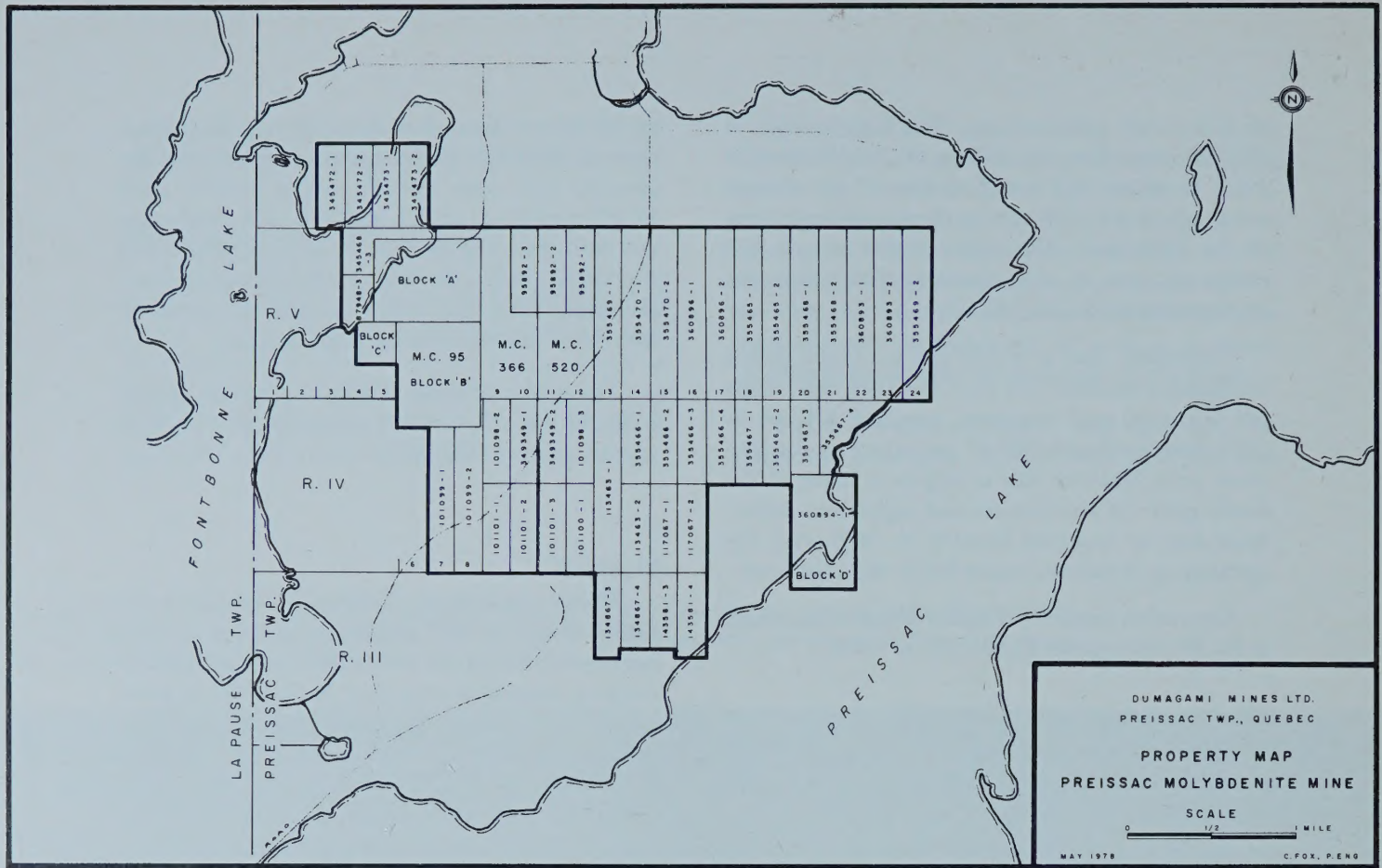
The silver division had an operating loss of \$189,524 for 1977 which compares with a 1976 operating loss of \$311,065.

Financial

Other important financial highlights for Agnico-Eagle in 1977 include an increase in working capital during the year of \$933,007 resulting in working capital at year end of \$159,289 as compared with a working capital deficiency a year earlier of \$773,718. This substantial improvement in working capital during 1977 is after provision for deferred expenditures totalling \$1,452,944 and purchases of fixed assets amounting to \$91,945.

These scenes underground at the gold mining division show Scooptrams mucking ore from the stope areas. With the completion of the shaft deepening project in late 1977, a substantial program is now in progress to open up new production levels below the 1500 level.





DUMAGAMI MINES LIMITED

This company, in which Mentor holds an approximate 16.8% equity interest, owns a gold-silver-copper property in Bousquet and Cadillac Townships, Quebec, about three miles from the Town of Cadillac. A paved highway connecting to the Val d'Or-Montreal highway passes through the eastern part of the property and electrical power is readily available as a Quebec Hydro transmission line crosses the claim group.

Ore reserves at the gold property are estimated at 2,353,000 tons grading 0.096 ounce of gold, 0.27 ounce of silver and 0.16% copper per ton to a depth of 800 feet. This calculation reflects the cutting of high assays to 0.50 ounce and a 25% dilution allowance. Drilling carried out during 1975 indicated that some 308,427 tons were available for the then proposed open pit mining with the remainder to be extracted by underground methods.

The gold mine was being readied for a planned pilot operation at an initial rate of 500 tons daily, commencing in 1976, until a decision was taken during October, 1975 to suspend construction and development, and place the project on a standby basis. This decision was taken in conjunction with the sharp drop in the price of gold to a level below \$140 per ounce in October, 1975.

The project studies carried out in 1975 indicated capital costs for the initial phase of pilot mining of approximately \$1,285,000 including working capital of \$675,000. The second stage to full production from the open pit would require a further expenditure of \$1,334,000. These cost estimates included a provision for the then planned alterations and additions to the company-owned 1,000 ton per day capacity Preissac Mill located about nine miles north of the gold property in Preissac Township.

During 1977, a detailed geological map of the Bousquet-Cadillac gold property was completed and several zones were outlined as being worthy of further investigation. The mill, office and ancillary buildings have been kept on a care and maintenance basis. Development of the gold property is primarily dependent upon gold prices reaching a sustained level which will enable an appropriate return on the investment required to place it into production.

Preissac Molybdenum Mine

Dumagami has recently acquired from Noranda Mines Limited (the majority shareholder of Dumagami) its Preissac Molybdenum property holdings. This 3,900-acre block includes all the claims of the formerly producing Preissac Molybdenite Mines Limited and adjoining claims covering the favourable northeast contact of the granite intrusive which is considered to have the best geological potential for molybdenum in the area.

The property holdings in Preissac Township consist of five mining concessions and 47 claims. For purposes of description, the block of ground is divided into two main areas of prime interest, designated as the 'Preissac Mine' and the 'Preissac South Zone'.

The Preissac Mine was in production from the mid-1960's and during the period from 1966 to 1971 some 2.5 million tons of ore were processed in the mill now owned by Dumagami which is located at the molybdenum mine site. Production was suspended at the end of 1971 due to low metal prices.

Quoted prices for molybdenum oxide during the period from 1966 to 1971 ranged between \$1.68 to \$1.80 per lb., dropping sharply in 1972 to around \$1.50 per lb. In the past four years, molybdenum prices have experienced a series of substantial and sustained increases owing to surging worldwide consumption, climbing from \$2.30 per lb. in 1974 to \$3.20 in 1976, and then to over \$4.00 in late 1977, **with current prices quoted by leading Canadian producers of US\$5.83 per lb.**

The latter price is equivalent to approximately \$6.40 per lb. in Canadian funds, or nearly 300% above the average price received by Preissac Molybdenite Mines Limited during the 1966-1971 production period.

With a melting point about 2,000 degrees Fahrenheit above that of iron, molybdenum is assuming a constantly increasing importance as an energy metal due to its extensive use in pipeline construction where its unique properties of resistance to high temperatures and corrosion complement the well established application of molybdenum alloys in tool steels, electronics, missile parts and nuclear reactors.

Prior Production and Remaining Reserves

The Preissac Mine has been developed by a shaft sunk to a depth of 1,400 feet. Most of the production came from above the 700 foot level with limited development on the 850 and 1000 levels. The 1150 and 1300 levels remain undeveloped.

Pre-production reserves were estimated at 2,240,000 tons grading 0.477% MoS₂ and 0.043% Bi. During the brief production period some 2,400,000 tons grading 0.34% MoS₂ and 0.027% Bi were mined. At the time of closure in 1971, ore reserves remaining above the 1000 level were estimated at 1,105,000 tons grading 0.31% MoS₂ and 0.024% Bi.

Two types of ore are present at Preissac designated as schist ore and quartz vein ore. The schist ore occurs in a band of schist at or above the granite contact. The main quartz vein ore occurs in granite near the contact. In places near the contact several closely spaced veins have been mined in bulk resulting in mining widths up to 100 feet.

The individual quartz veins range up to 1,500 feet in length and 20 feet in width, however, most are under 500 feet long and less than five feet wide. A review of the level plans suggest a decrease in the frequency and strength of quartz veining below the 700 level. However, more work remains to be done on these levels which could easily result in locating additional ore as most of the development on the lower levels to date has been concentrated at considerable distance from the productive contact of the granite which remains relatively unexplored.

Preissac South Zone

The Preissac South Zone, located along the southern boundary of the claim block, is the northwest extension of the formerly producing Cadillac Molybdenite Mine main vein system. The southwest part of this vein system was developed by a shaft on the Cadillac Molybdenite property near the common boundary. Production data for the Cadillac Molybdenite is incomplete, but records indicate that some 870,000 tons of ore were milled during the period from late 1965 to the end of 1967, producing an estimated 3.8 million lbs. of molybdenum and about 380,000 lbs. of bismuth.

Vein type reserves along the northwest extension of this vein system contained in the Preissac Molybdenite property holdings are estimated

at 409,000 tons grading 0.40% MoS₂ and 0.019% Bi. This is to a depth of 400 feet below surface and was calculated to a minimum width of four feet with no allowance for dilution. Average vein thickness is 11.8 feet. This zone is open to depth and along strike to the northwest.

A review of the geological setting of this large claim block indicates that the north contact of the granite intrusive is a prime exploration target for additional ore. The contact areas both to the northwest and northeast of the main Preissac Mine are recommended for exploration. Moreover, there is a strong fracture system striking northwest across the granite intrusive which contains both the Preissac and Preissac South Zones. The area between these zones is considered favourable for exploration.

Proposed Program

The proceeds from the recently arranged private placement of 775,000 treasury shares of Dumagami Mines Limited will enable the implementing of the recommended initial phase of exploration involving both surface and underground drilling. The objective of this program is to prove up additional ore reserves to enable production planning.

The surface drilling program would entail expanding and upgrading the Preissac South Zone and testing the favourable contact area both east and west of the main Preissac Mine zone. The preliminary surface and underground drilling program, together with a mining plant, would cost approximately \$1 million.

The second phase would consist of rehabilitating the existing Preissac Mill and preparing the Preissac South Zone for production.

As presently contemplated, the Preissac Mill could also serve to process the gold ore from the Dumagami Mine with the addition of an extra flotation and a cyanide circuit. An update of the feasibility study of the gold deposit shows that a gold price in excess of \$200 per ounce is required for a viable operation. However, rehabilitation of the mill for molybdenum production and addition of the extra circuit for treating the gold ore, would make the gold mining operation viable at current gold prices.

OTHER INVESTMENT HOLDINGS

As noted, your Company owns 1,385,582 shares of **Sudbury Contact Mines, Limited** and 125,200 shares of **Goldex Mines Limited**. The properties of these two companies have excellent exploration and development potential at appropriate gold prices.

With the steady and sustained uptrend in gold prices during the past year, resumption of exploration at Sudbury Contact's Kirkland-Larder Lake area gold properties is scheduled for the current year. The assemblage of properties totalling 51 claims covering an area in excess of 2,000 acres held under working option by Sudbury Contact extend for a distance of nearly four miles immediately south of the east-west striking Kirkland-Larder Break with which the producing mines in the area are associated.

Interest in the gold mining possibilities of the Kirkland-Larder Lake area is evident in the continuing programs being conducted by several companies. Recent studies of the exploration possibilities of the Sudbury Contact holdings and the higher price for gold have resulted in plans for exploration to cover two other gold zones, apart from the Laguerre shaft workings where previous work was concentrated.

Principal emphasis will be on deep drill testing of the Raven River shaft area. Previous mining in earlier operations by former owners indicated seven gold-bearing quartz veins above the 700 foot level in an altered syenite plug, about 350 feet by 180 feet in size. The second area scheduled for exploration during 1978 is located about 800 feet south of the Laguerre shaft and 1,800 feet west of the Raven River shaft.

The latter, known as the Knutson showing, was trenched in 1941 and consists of two north striking forked gold-bearing quartz vein systems in syenite. Vein No. 1 averaged 0.25 ounce gold per ton across 5.9 feet for a length of 80 feet. Vein No. 2 averaged 0.42 ounce per ton across 5.4 feet for a length of 160 feet. These values were obtained from sampling of surface trenches.

Other tentative plans include the possibility of extending a 2,000 foot drive from the Laguerre workings into the adjoining Raven River mine property.

WHOLLY OWNED PROPERTIES

The Semi-Annual Report published August, 1977 described the acquisition by your Company of a working option to explore a tungsten-molybdenum property in the Salmo mining area, British Columbia. The property contained the three known separate occurrences of tungsten, molybdenum and zinc-lead. The main tungsten showing located at the north end of the property was drilled during 1952-1953, indicating 82,000 tons grading 0.54% WO_3 . A small high grade molybdenum showing is located about 300 feet north of the tungsten deposit, exposed by six open cuts at intervals over a length of 150 feet from which selected samples returned assays of up to 2.70% MoS_2 across a width of 7.0 feet. The lead-zinc showing is located about 1,500 feet east of the tungsten showing.

Several claims have been added to the property which now covers a combined area of some 3,000 acres, in order to adequately cover a new tungsten discovery 7,000 feet south of the main showing, and to extend the coverage on the favourable skarn area to the northeast along the south side of Sheep Creek. The appended map shows the enlarged property and the two areas on which soil sampling and geophysical surveys were carried out during the 1977 field season.

Exploration in the 1977 field season consisted of soil sampling for tungsten, molybdenum, lead, zinc and copper over two grids, one in the north part of the property covering 150 acres, and one in the south part of the property covering 110 acres. A magnetic survey over both grids resulted in outlining a moderately sharp anomaly on the northwest corner of the Udiville claim. The cause of the anomaly has not yet been determined, but faulting and/or folding is indicated.

Results of the magnetic survey and soil sampling give no indications of interest on the south grid. However, this could be explained by the possibility of the grid being located entirely over the main granite mass as is indicated on government maps. Results of the soil sampling are inconclusive due to the lack of detailed sampling for tungsten along the favourable west granite contact zone.

North grid detailed fill-in sampling for a total of two miles to the south of the contact vicinity has

TUNGSTEN-MOLYBDENUM PROPERTY

Salmo B.C.

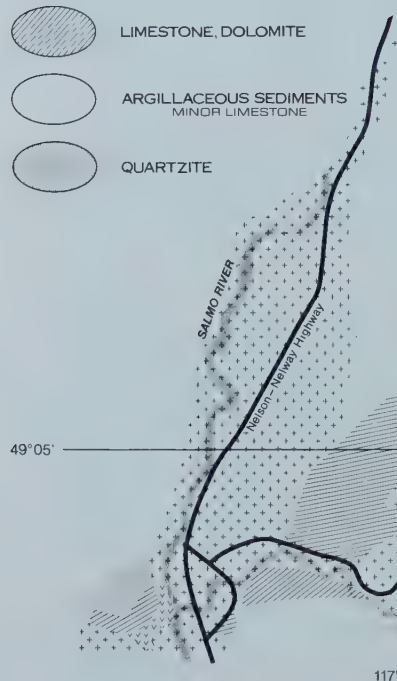
mentor

EXPLORATION AND DEVELOPMENT
COMPANY LIMITED



Legend

- NO OUTCROP
- GRANITE
- LIMESTONE, DOLOMITE
- ARGILLACEOUS SEDIMENTS
MINOR LIMESTONE
- QUARTZITE



- Symbols*
- W Tungsten
 - Mo Molybdenum
 - Zn Zinc
 - Au Gold
 - Producers past & present

been recommended prior to a re-evaluation of the anomalous tungsten values.

The principal item of interest arising from the 1977 field program was a new discovery of tungsten on the west boundary of the property. Additional claims were staked to protect the possible strike extensions of this discovery. Limited sampling of a small outcrop and boulder float returned tungsten values of 0.17% WO₃ and 0.29% WO₃. An effort was made to take in a bulldozer to clear off the shallow overburden and open up the tungsten-bearing skarn, but winter snow combined with the rugged terrain prevented this phase of the program. Targets for bulldozing will be determined as part of the program scheduled for the 1978 season which will also include possible drilling.

The main effort on this property is essentially exploration for tungsten, however, as molybdenite is an associated mineral found under similar geological conditions, exploration for the latter can be carried out at the same time. The formerly producing tungsten mines of Placer Development, the Emerald, Dodger, Jersey and Invincible mines, are located west of the Mentor claim group. These were successful tungsten producers operated both during and subsequent to World War II.

Results of the limited diamond drilling program on the Company's Lake Expanse Gold Property, Belleterre, Quebec, carried out during August and September of 1977, did not encounter intersections of economic significance. The drilling, totalling 2,326 feet, was designed to test the No. 1 Zone and Shaft Area where previous drilling intersected high values.

Considering the narrow and erratic nature of the gold occurrences on this property and the results of the 1977 drilling, no further work is planned at this time. Six known gold-bearing zones remain to be tested in the event of a substantial increase in the price of gold from current levels.

GENERAL AND FINANCIAL DATA

Working capital at December 31, 1977 of \$1,721,670 again shows an increase from the comparative figure for the previous year end. Marketable securities and investments which are carried on

the books at a cost of \$2,201,922 had a year end quoted value in excess of \$5 million.

The emerging pattern of fundamental strength in world bullion markets during and subsequent to 1977, with current prices approximating \$200 per ounce in Canadian funds, has positive implications in terms of your Company's investment holdings in Agnico-Eagle Mines Limited which clearly demonstrated impressive earnings potential, particularly in the 1978 first quarter during which the Gold Division recorded an impressive operating profit of \$1,253,029. The expectation for the full year is enhanced both by the probability of sustained high gold prices and projected higher ore grades as the new lower levels of the mine are brought into production.

The recent acquisition by Dumagami Mines Limited of the formerly producing molybdenum Preissac Mine with its known reserves, is clearly a significant new dimension for this investment holding. Current and projected molybdenum prices, at least triple the prices prevailing at the time of the former operation, provide an attractive economic basis for the exploration and further development of the known reserves at this property.

The contemplated program of surface and underground drilling with its objective of expanding and upgrading the two known zones to enable plans for molybdenum production, and consequent rehabilitation of the Preissac Mill, has the added advantage of enabling a viable gold mining operation from the nearby Dumagami deposit when an operating processing plant is available for the simultaneous treatment of both molybdenum and gold ores.

On behalf of the Board of Directors,



President

May 26, 1978

BALANCE SHEET

AS AT DECEMBER 31, 1977

ASSETS

CURRENT

Cash	
Marketable securities, at lower of cost and market (market value \$5,060,628; 1976 — \$3,749,920)	
Loans receivable — 10%	
Accrued interest receivable	
Sundry receivable	

INVESTMENTS, at cost (Note 2)

MINING CLAIMS AND PROPERTIES, at cost (Note 3)

DEFERRED EXPLORATION EXPENDITURES (Note 1)

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES

Bank indebtedness, secured by certain securities	
Payable to brokers, secured by certain securities	
Accounts payable and accrued charges	
Loans payable — 10%	

SHAREHOLDERS' EQUITY

Capital

Authorized

5,000,000 Shares, without par value

Issued and Fully Paid

3,455,746 Shares

RETAINED EARNINGS

See accompanying notes to financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

1977	1976
\$ —	\$ 2,007
2,201,922	1,883,957
—	104,100
31,573	27,882
1,000	—
2,234,495	2,017,946
977,046	938,818
155,880	125,880
160,734	71,480
<u>\$3,528,155</u>	<u>\$3,154,124</u>

\$ 75,430	\$ 145,000
386,242	234,116
14,253	8,588
36,900	—
<u>512,825</u>	<u>387,704</u>

1,802,966	1,802,966
1,212,364	963,454
3,015,330	2,766,420
<u>\$3,528,155</u>	<u>\$3,154,124</u>

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of Mentor Exploration and Development Co., Limited as at December 31, 1977 and the statements of administrative expenses, revenue and retained earnings, deferred exploration expenditures and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

STARKMAN, KRAFT, ROTHMAN, BERGER & GRILL
Chartered Accountants

Toronto, Ontario
February 23, 1978

Approved on behalf of the Board of Directors:

PAUL PENNA, Director

IRVING DOBBS, Director

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

STATEMENT OF ADMINISTRATIVE EXPENSES, REVENUE AND RETAINED EARNINGS

For the Year Ended December 31, 1977

	<u>1977</u>	<u>1976</u>
EXPENSES		
Administration and office services	\$ 10,800	\$ 10,800
Interest and bank charges	35,795	50,463
Legal and audit	8,307	7,726
Shareholders' information	15,413	10,435
Property examination consulting fees	29,062	23,716
Transfer agent fees	3,405	4,164
Miscellaneous	5,505	4,305
Travel expense	7,117	—
Directors' fees	1,200	900
	<u>116,604</u>	<u>112,509</u>
Less: Gain on sale and revaluation of marketable securities and investments	337,923	219,359
Interest and dividends earned	27,591	19,322
	<u>365,514</u>	<u>238,681</u>
REVENUE BEFORE INCOME TAXES	248,910	126,172
Provision for income taxes	39,041	11,178
REVENUE BEFORE EXTRAORDINARY ITEM	209,869	114,994
Utilization of prior years' unrecorded deferred tax benefit	39,041	11,178
NET REVENUE FOR THE YEAR	248,910	126,172
RETAINED EARNINGS, beginning of year	963,454	837,282
RETAINED EARNINGS, end of year	<u>\$1,212,364</u>	<u>\$ 963,454</u>

See accompanying notes to financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

STATEMENT OF DEFERRED EXPLORATION EXPENDITURES

For the Year Ended December 31, 1977

	1977	1976
BELLETERRE AREA, QUEBEC		
Staking	\$ 3,382	\$ 1,020
Consulting fees	10,337	2,277
Licences and taxes	570	568
Line-cutting	1,638	—
Electromagnetic survey	1,194	—
Diamond drilling	26,378	—
	<u>43,499</u>	<u>3,865</u>
SALMO AREA, BRITISH COLUMBIA (Note 3)		
Surveying	43,586	—
Consulting fees	1,176	—
	<u>44,762</u>	<u>—</u>
OTHER PROPERTIES		
Licences and taxes	993	711
DEFERRED EXPLORATION EXPENDITURES, beginning of year	<u>71,480</u>	<u>66,904</u>
DEFERRED EXPLORATION EXPENDITURES, end of year	<u>\$ 160,734</u>	<u>\$ 71,480</u>

See accompanying notes to financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

SUMMARY OF DEFERRED EXPLORATION EXPENDITURES

As at December 31, 1977

	1977	1976
Hill Group, Ontario	\$ 65,593	\$ 64,728
Halet Group, Ontario	2,208	2,123
Chandler Group, Ontario	642	599
Belleterre Area, Quebec	47,529	4,030
Salmo Area, British Columbia	44,762	—
	<u>\$ 160,734</u>	<u>\$ 71,480</u>

STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Year Ended December 31, 1977

	1977	1976
SOURCE OF WORKING CAPITAL		
Gain on sale of marketable securities	\$ 337,923	\$ 224,204
Interest and dividends earned	27,591	19,322
Sale of investments	15,581	—
	<u>381,095</u>	<u>243,526</u>
APPLICATION OF WORKING CAPITAL		
Administrative expenses	116,604	112,509
Acquisition of investments	53,809	76,658
Exploration expenditures	89,254	4,576
Acquisition of option on mining property	30,000	—
	<u>289,667</u>	<u>193,743</u>
INCREASE IN WORKING CAPITAL	91,428	49,783
WORKING CAPITAL — beginning of year	1,630,242	1,580,459
WORKING CAPITAL — end of year	<u>\$1,721,670</u>	<u>\$1,630,242</u>

See accompanying notes to financial statements.

MENTOR EXPLORATION AND DEVELOPMENT CO., LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1977

1. ACCOUNTING POLICY

The company follows the policy of deferring exploration expenditures until such time as the properties commence production. Properties determined to be of little or no value are written down to nominal value and deferred exploration thereon is written off against retained earnings. The amounts shown for deferred exploration expenditures are not intended to reflect present or future values.

2. INVESTMENTS

Investments held at December 31 are as follows:

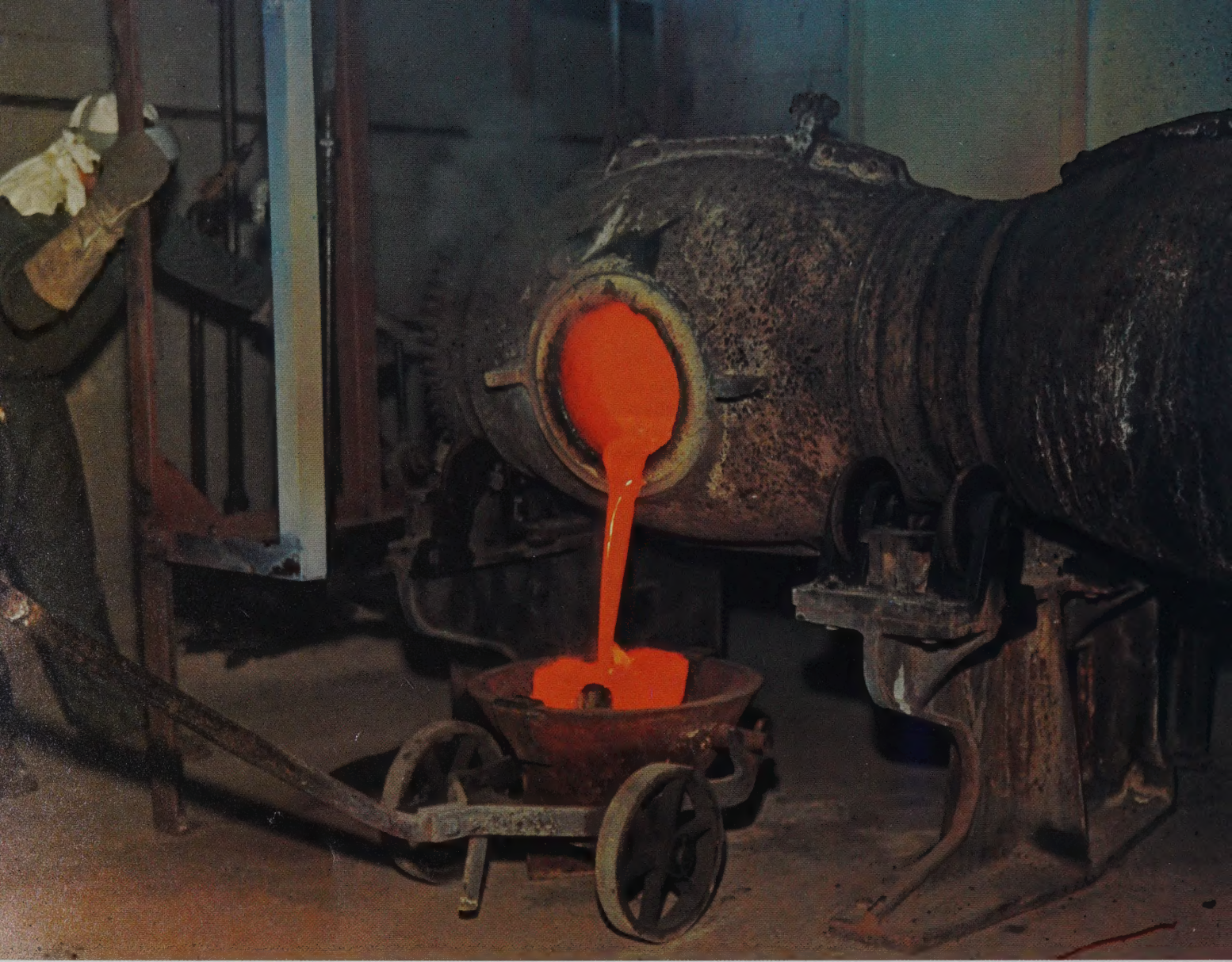
	1977			1976		
	Number Of Shares	Cost	Market	Number of Shares	Cost	Market
		\$	\$		\$	\$
Dumagami Mines Limited	637,500	620,814	796,875	653,500	636,395	372,495
Sudbury Contact Mines, Limited	1,385,582	302,422	290,972	1,385,582	302,423	228,621
		923,236	1,087,847		938,818	601,116
Long Shots, Inc.	18,510	53,810	No quoted value		—	—
		<u>977,046</u>	<u>1,087,847</u>		<u>938,818</u>	<u>601,116</u>

3. OPTION ON MINING CLAIMS

Pursuant to an agreement dated June 1, 1977 the company has acquired an option on a group of mining claims in the Salmo Area of British Columbia. As consideration for the option the company paid the sum of \$20,000 on acquiring this option and a further sum of \$10,000 on December 1, 1977. In order to maintain the option in good standing the company is required to make additional payments of \$10,000 on December 1, 1978 and 1979.

4. EXTRAORDINARY ITEM

For income tax purposes the company has claimed certain expenses in lesser amounts than the related provisions recorded for accounting purposes. The resulting timing differences give rise to deferred income tax benefits which were not reflected in the accounts previously as their recovery was uncertain. The deferred tax benefit of \$39,041 realized for 1977 is a result of the recovery of income taxes of an equal amount on income for the year.



Above: The refinery furnace at the Agnico-Eagle Mines Limited gold division is shown here during the pouring of a gold bar which usually contains about 800 ounces of gold. The refinery furnace is charged with a mixture of gold precipitate and flux and, after heating to a temperature of about 2,500° F., the molten gold is poured into molds where the gold, owing to its high density, separates from the slag. **Lower Left:** Gold bar being test-drilled to determine its purity. **Lower Right:** The bar is weighed before shipping to the Royal Canadian Mint at Ottawa, Ontario.

